

Message Text

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21

ORIGIN EB-07

INFO OCT-01 CCO-00 SS-15 SSO-00 ISO-00 TRSE-00 NEA-09

NSCE-00 /032 R

DRAFTED BY EB/IFD/OMA:GPBALABANIS

APPROVED BY EB:JLKATZ

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TREAS:TLEDDY (PHONE)

NEA/ARP:FDICKMAN (PHONE)

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FM SECSTATE WASHDC

TO USDEL ASWAN IMMEDIATE

C O N F I D E N T I A L STATE 064006

TOSEC 861

E.O. 11652: GDS

TAGS:

SUBJ: BRIEFING MEMO: MIDDLE-EASTERN CURRENCIES PEG TO
SDR S/S NR7505593)

FOR THE SECRETARY FROM EB - KATZ, ACTING

1. RECENTLY THREE MIDDLE-EASTERN OIL PRODUCERS, SAUDI
ARABIA, KUWAIT, AND QATAR, FOLLOWED IRAN IN DECIDING TO
MAINTAIN THE EXCHANGE VALUE OF THEIR CURRENCIES IN TERMS
OF THE SDR INSTEAD OF THE DOLLAR. THIS MEANS THAT THE
DOLLAR PRICE OF LOCAL CURRENCIES IN THESE COUNTRIES WILL
VARY FROM TIME TO TIME REFLECTING CHANGES IN MARKET RATES
BETWEEN THE DOLLAR AND THE OTHER MAJOR CURRENCIES MAKING
UP THE SDR "BASKET". THE OBJECTIVE OF THIS STEP, WHICH
HAS BEEN TAKEN BY A NUMBER OF COUNTRIES IN VARIOUS PARTS
OF THE WORLD, IS TO MODERATE FLUCTUATIONS IN THE LOCAL
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CURRENCY COSTS OF GOODS IMPORTED FROM THE NON-DOLLAR AREA--

ESPECIALLY EUROPE. THE SAUDI ARABIAN ACTION WAS ACCOMPANIED BY A SMALL (2 PERCENT) REVALUATION OF THE RIYAL. FOR

AMERICANS THIS MEANS A SMALL INCREASE, AND THE PROSPECT OF SOME FUTURE VARIATION (UP OR DOWN), IN THE DOLLAR PRICE OF LOCAL CURRENCIES.

2. THE STEP HAS NO DIRECT IMPACT AT ALL ON THE PRICE OF OIL. OIL PRICES ARE STILL BEING QUOTED IN DOLLARS. NEITHER IS THERE ANY DIRECT IMPACT ON THE CURRENCY USED FOR MAKING PAYMENTS FOR OIL-MOST PAYMENTS FOR OIL CONTINUE TO BE MADE IN DOLLARS.

3. SAMA GOVERNOR QURAISHI TOLD AKINS OIL PRICES WOULD CONTINUE TO BE SET IN DOLLARS--IN SPITE OF PRESSURE FROM OTHER OPEC COUNTRIES TO CHANGE TO SDRS OR SOME OTHER CURRENCY BASKET. ANY CHANGE ALONG THESE LINES, OF COURSE, COULD HAVE AN IMPACT ON THE DOLLAR PRICE OF OIL AND MORE SERIOUS CONSEQUENCES FOR U.S. INTERESTS.

INGERSOLL

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM, BRIEFING MATERIALS, CURRENCIES, REVALUATIONS, TOSEC 861
Control Number: n/a
Copy: SINGLE
Draft Date: 21 MAR 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: johnsorg
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE064006
Document Source: CORE
Document Unique ID: 00
Drafter: GPBALABANIS
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750098-0685
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750327/aaaaaxvh.tel
Line Count: 82
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: johnsorg
Review Comment: n/a
Review Content Flags:
Review Date: 13 AUG 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <13 AUG 2003 by izenbei0>; APPROVED <01 DEC 2003 by johnsorg>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: BRIEFING MEMO: MIDDLE-EASTERN CURRENCIES PEG TO SDR S/S NR7505593)
TAGS: EFIN, ENRG, US, XF
To: ASWAN
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006